

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Agriculture and Forestry  
State of Louisiana  
Baton Rouge, Louisiana

December 20, 2001



***Financial and Compliance Audit Division***

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***Daniel G. Kyle, Ph.D., CPA, CFE  
Legislative Auditor***

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### **LEGISLATIVE AUDITOR**

**Daniel G. Kyle, Ph.D., CPA, CFE**

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**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

Special Purpose Financial Statements  
and Independent Auditor's Reports  
As of and for the Year Ended June 30, 2001  
With Supplemental Information Schedules

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

December 20, 2001

**DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA**

Special Purpose Financial Statements  
and Independent Auditor's Reports  
As of and for the Year Ended June 30, 2001  
With Supplemental Information Schedules

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DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
Contents, June 30, 2001

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DANIEL G. KYLE, PH.D., CPA, CFE  
LEGISLATIVE AUDITOR

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December 11, 2001

Independent Auditor's Report  
on the Financial Statements

**HONORABLE BOB ODOM**  
**COMMISSIONER OF AGRICULTURE**  
**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Louisiana Department of Agriculture and Forestry, a department within Louisiana state government, as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of management of the Louisiana Department of Agriculture and Forestry. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the financial statements, the accompanying special purpose financial statements present only the funds of the Louisiana Department of Agriculture and Forestry. As such, they present the appropriated and non-appropriated activity of the department that are part of the accounts and fund structure of the State of Louisiana. The General Appropriation Fund reflects appropriated activity of the department that is part of the General Fund of the State of Louisiana. The non-appropriated funds are individual funds of the State of Louisiana not subject to budgetary control. Furthermore, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act for the appropriated fund and the financial position of the non-appropriated funds. These procedures differ from accounting principles generally accepted in the United States of America as described in the notes to the financial statements. Accordingly, the accompanying special purpose financial statements are not intended to and do not present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.



LEGISLATIVE AUDITOR

HONORABLE BOB ODOM  
COMMISSIONER OF AGRICULTURE  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
Audit Report, June 30, 2001

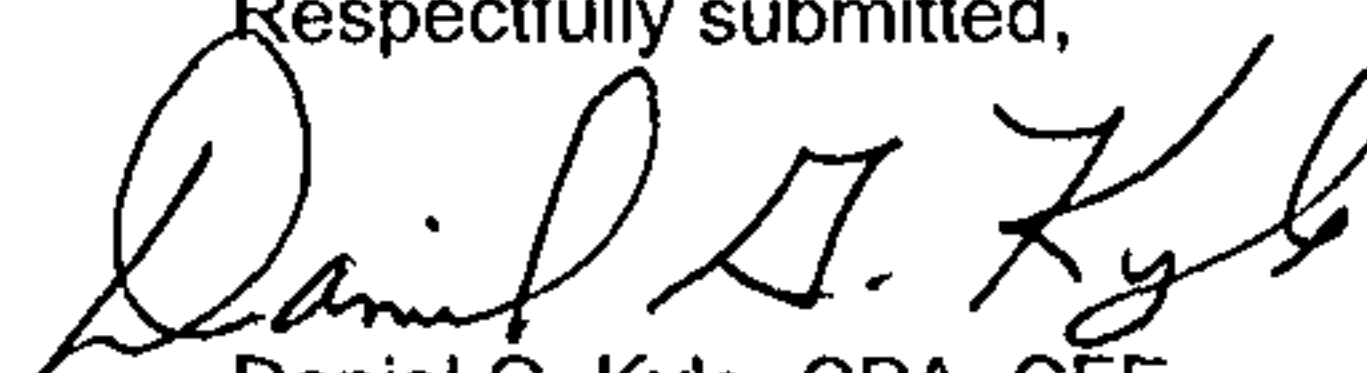
As discussed in note 1-B, certain boards and commissions that have been placed within the Louisiana Department of Agriculture and Forestry by the Executive Reorganization Act continue to maintain their own accounting records and are not included in the accompanying financial statements. Transactions of these boards and commissions are reported separately.

In our opinion, the accompanying special purpose financial statements present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Louisiana Department of Agriculture and Forestry at June 30, 2001, and the transactions of such funds for the year then ended, on the basis of accounting described in note 1-D.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2001, on our consideration of the Louisiana Department of Agriculture and Forestry's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the accompanying special purpose financial statements of the Department of Agriculture and Forestry taken as a whole. The accompanying supplemental information schedules are presented for the purpose of additional analysis and have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are stated fairly in all material respects in relation to the special purpose financial statements taken as a whole.

This report is intended solely for the information and use of the department and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,  
  
Daniel G. Kyle, CPA, CFE  
Legislative Auditor

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[AGFOR01]

DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS

Balance Sheet (Legal Basis), June 30, 2001

		NON-
	GENERAL APPROPRIATION FUND	LICENSING AND REGULATORY BOARDS TRUST FUNDS
<b>ASSETS</b>		
Cash (note 2)	\$2,380,831	\$836,418
Receivables (note 3)	729,121	557,975
Due from others (note 4)	3,340,366	
Loans receivable (note 5)	3,191,257	
Inventory of materials and supplies (note 6)	3,017,267	
<b>TOTAL ASSETS</b>	<b>\$12,658,842</b>	<b>\$1,394,393</b>
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Payables (note 13)	\$4,760,622	\$14,148
Advances due to state treasury (note 16)	848,092	
Major state revenues and income not available due to state treasury		
Due to others (note 4)	1,385,620	530,000
Amounts held in custody for others		15,408
Deferred revenue	157,139	
Total Liabilities	7,151,473	559,556
Fund Equity:		
Fund balances - reserved for:		
Inventory of materials and supplies	3,017,267	
Continuing operations (note 17)	3,541,286	
Debt service (note 18)		834,837
Unreserved - undesignated (deficit) (note 19)	(1,051,184)	
Total Fund Equity	5,507,369	834,837
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$12,658,842</b>	<b>\$1,394,393</b>

The accompanying notes are an integral part of this statement.



Statement A

APPROPRIATED FUNDS			
AGENCY FUNDS			
SOIL AND WATER CONSERVATION DISTRICTS CLEARING FUND	OTHER AGENCY FUNDS	MAJOR STATE REVENUES AND INCOME NOT AVAILABLE	TOTAL (MEMORANDUM ONLY)
\$328	\$21,512		\$3,239,089
	291	\$513,842	1,801,229
			3,340,366
			3,191,257
			3,017,267
\$328	\$21,803	\$513,842	\$14,589,208
			\$4,774,770
			848,092
		\$513,842	513,842
			1,915,620
\$328	\$21,803		37,539
			157,139
328	21,803	513,842	8,247,002
			3,017,267
			3,541,286
			834,837
			(1,051,184)
NONE	NONE	NONE	6,342,206
\$328	\$21,803	\$513,842	\$14,589,208

**DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
GENERAL APPROPRIATION FUND AND  
NON-APPROPRIATED TRUST FUNDS**

**Statement of Revenues, Expenditures, and  
Changes in Fund Balance (Legal Basis)  
For the Year Ended June 30, 2001**

	GENERAL APPROPRIATION FUND	NON-APPROPRIATED LICENSING AND REGULATORY BOARDS TRUST FUNDS	TOTAL (MEMORANDUM ONLY)
<b>REVENUES</b>			
Appropriated by legislature:			
State General Fund	\$32,490,119		\$32,490,119
State General Fund by fees and self-generated revenues	6,747,347		6,747,347
State General Fund by interagency transfers	566,193		566,193
Federal funds	6,048,782		6,048,782
Auxiliary funds	2,571,615		2,571,615
Non-appropriated revenues		\$4,590,101	4,590,101
Total revenues	<u>48,424,056</u>	<u>4,590,101</u>	<u>53,014,157</u>
<b>EXPENDITURES</b>			
Appropriated expenditures:			
Office of Management and Finance	13,825,245		13,825,245
Office of Marketing	1,915,580		1,915,580
Office of Agricultural and Environmental Sciences	34,840,736		34,840,736
Office of Animal Health Services	9,119,654		9,119,654
Office of Agro-Consumer Services	4,028,166		4,028,166
Office of Forestry	16,897,989		16,897,989
Office of Soil and Water Conservation	2,425,058		2,425,058
Auxiliary funds	2,945,758		2,945,758
Non-appropriated expenditures		675,021	675,021
Total expenditures	<u>85,998,186</u>	<u>675,021</u>	<u>86,673,207</u>
<b>EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES</b>	(37,574,130)	3,915,080	(33,659,050)
<b>OTHER FINANCING SOURCES (Uses)</b>			
Transfers in (note 21)	37,843,145		37,843,145
Transfers out (note 21)	<u>(787,190)</u>	<u>(3,515,000)</u>	<u>(4,302,190)</u>
<b>EXCESS (Deficiency) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	(518,175)	400,080	(118,095)
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	6,684,187	434,757	7,118,944
<b>INCREASE IN RESERVE FOR INVENTORY</b>	(589,996)	NONE	(589,996)
<b>ADJUSTMENTS (note 20)</b>	<u>(68,647)</u>	<u>NONE</u>	<u>(68,647)</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$5,507,369</u>	<u>\$834,837</u>	<u>\$6,342,206</u>

The accompanying notes are an integral part of this statement.

**DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
GENERAL APPROPRIATION FUND**

**Statement of Revenues, Expenditures, and  
Unexpended Appropriation - Budget  
Comparison of Current-Year Appropriation -  
Budget (Legal Basis) and Actual  
For the Year Ended June 30, 2001**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>REVENUES</b>			
Appropriated by legislature:			
State General Fund	\$32,494,087	\$32,490,119	(\$3,968)
State General Fund by fees and self-generated revenues	11,344,644	10,066,508	(1,278,136)
State General Fund by interagency transfers	566,193	566,193	
Federal funds	7,085,655	6,135,240	(950,415)
Other fund sources:			
Agricultural Commodities Self-Insurance Program Fund	350,000	200,000	(150,000)
Boll Weevil Eradication Fund	41,787,421	36,407,756	(5,379,665)
Feed Commission Fund	120,609	111,391	(9,218)
Fertilizer Commission Fund	1,000,000		(1,000,000)
Forest Protection Fund	800,000	791,280	(8,720)
Forestry Productivity Fund	4,500,000	3,400,870	(1,099,130)
Louisiana Agricultural Finance Authority	154,344	12,179	(142,165)
Pesticide Fund	3,095,251	2,730,000	(365,251)
Petroleum and Petroleum Products Fund	800,000	800,000	
Structural Pest Control Commission Fund	541,550	541,550	
Formosan Termite Initiative Fund	1,548,405	848,120	(700,285)
Total appropriated revenues	<u>106,188,159</u>	<u>95,101,206</u>	<u>(11,086,953)</u>
<b>EXPENDITURES</b>			
Appropriated for:			
Office of Management and Finance	14,763,408	13,811,192	952,216
Office of Marketing	2,474,868	1,920,766	554,102
Office of Agricultural and Environmental Sciences	51,136,598	43,636,955	7,499,643
Office of Animal Health Services	9,284,815	9,111,668	173,147
Office of Agro-Consumer Services	4,140,798	4,022,430	118,368
Office of Forestry	17,506,572	16,894,520	612,052
Office of Soil and Water Conservation	2,428,531	2,424,439	4,092
Auxiliary	4,452,569	2,957,223	1,495,346
Total appropriated expenditures	<u>106,188,159</u>	<u>94,779,193</u>	<u>11,408,966</u>
<b>UNEXPENDED APPROPRIATION - CURRENT YEAR</b>	<u>NONE</u>	<u>\$322,013</u>	<u>\$322,013</u>

The accompanying notes are an integral part of this statement.

**DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA**

Notes to the Financial Statements  
As of and for the Year Ended June 30, 2001

**INTRODUCTION**

The Louisiana Department of Agriculture and Forestry is a department within Louisiana state government. The department was created in accordance with Title 36, Chapter 14 of the Louisiana Revised Statutes of 1950, as a part of the executive branch of government. The department is charged with all functions relating to promotion, protection, and advancement of agriculture and forestry, except research and educational functions expressly allocated by the constitution or by law to other state agencies within the State of Louisiana.

The Louisiana Department of Agriculture and Forestry consists of the Office of Management and Finance, the Office of Marketing, the Office of Agricultural and Environmental Sciences, the Office of Animal Health Services, the Office of Agro-Consumer Services, the Office of Forestry, and the Office of Soil and Water Conservation. The offices of the department are funded by one general appropriation and five auxiliary appropriations. The department has approximately 765 full-time employees with work locations throughout the state. In addition to providing various state-funded agricultural and forestry related programs, the department also administers various agricultural related programs for the United States Department of Agriculture, the United States Department of Commerce, the United States Environmental Protection Agency, and the United States Department of Health and Human Services.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

The Governmental Accounting Standards Board (GASB) promulgates generally accepted accounting principles and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. This codification and subsequent GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments. However, the accompanying financial statements have been prepared on a legal basis, which differs from accounting principles generally accepted in the United States of America as explained in the following notes.

**B. REPORTING ENTITY**

GASB Codification Section 2100 establishes criteria for determining the governmental reporting entity and has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements represent activity of a department of state government and, therefore, are a part of the fund and account group structure of the State of Louisiana and its general purpose financial statements.



**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

The Louisiana Agricultural Finance Authority is created within the Department of Agriculture and Forestry under Louisiana Revised Statute (R.S.) 3:264. The authority maintains land and buildings throughout the state for use by the department, including the Headquarters Building Complex. Per diem and travel paid to authority members and operating expenses of the authority are included in the accompanying financial statements. The authority is subject to separate reporting and audit.

Certain boards and commissions that were included in the Reorganization Act under the Department of Agriculture and Forestry are not appropriated and are not included in the accompanying financial statements. These boards and commissions, subject to separate reporting and audit, are as follows:

	<u>Louisiana Revised Statute</u>
Louisiana Egg Commission	3:551.2
Louisiana Strawberry Marketing Board	3:473
Louisiana Sweet Potato Advertising and Development Commission	3:453
Dairy Industry Promotion Board	3:557.4

The department collects and remits fees for certain boards and commissions less the actual cost of administering the collections up to a specified percentage established by statute. These boards and commissions are reported in an agency fund within the department's financial statements; however, the actual operations of these boards and commissions are subject to separate reporting and audit as follows:

	<u>Louisiana Revised Statute</u>
Louisiana Crawfish Promotion and Research Board	3:556.3
Louisiana Soybean and Grain Research and Promotion Board	3:551.32
Louisiana Rice Promotion Board	3:551.63
Louisiana Rice Research Board	3:551.73
Louisiana Catfish Promotion and Research Board	3:558.3

**C. FUND ACCOUNTING**

The department uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position of its non-appropriated funds. This differs from the fund accounting of accounting principles generally accepted in the United States of America where the intent is to measure the



**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of the accounting principles generally accepted in the United States of America.

Generally, noncurrent assets, general fixed assets, and long-term liabilities are reflected only in the State of Louisiana's general purpose financial statements. However, noncurrent assets are included in the department's financial statements for the Farm Youth Loan Program and other programs of the State Market Commission.

The funds presented in the special purpose financial statements are described as follows:

**APPROPRIATED FUNDS**

**General Appropriation Fund**

The General Appropriation Fund is a single legislative appropriation comprised of seven separate budget units as follows:

1. The Office of Management and Finance provides accounting, budget preparation and control, procurement, contract management, management and program analysis, data processing, and personnel management.
2. The Office of Marketing provides programs for the development and growth of markets for Louisiana agricultural products.
3. The Office of Agricultural and Environmental Sciences performs technical services and laboratory functions for the farmers of the state and performs functions designed to improve seed certification; increases production of rice and nursery stock; protects Louisiana from the introduction and spread of injurious insect pests and plant diseases; samples pesticides, feeds, and fertilizer and agricultural minerals to assure that they meet all requirements of laws and regulations; regulates the treatment and storage or disposal of pesticide wastes; trains and certifies pesticide applicators; and performs other related functions. The activities of the Boll Weevil Eradication Commission are accounted for within this office.
4. The Office of Animal Health Services is responsible for the inspection and grading of meat, the control and eradication of infectious diseases that infect the livestock and poultry industries of the state, and the control of livestock theft in Louisiana.

**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

5. The Office of Agro-Consumer Services performs the functions of the state relating to the inspection of poultry and dairy products, the regulation of weights and measures, the classification of perishable commodities, the licensing and inspection of statewide bonded warehouses, and such other functions that ensure quality agricultural products for the consumer.
6. The Office of Forestry provides for the protection, management, preservation, and replenishment of forest lands of the State of Louisiana.
7. The Office of Soil and Water Conservation provides assistance in the organization of Soil and Water Conservation Districts, assistance in the management of small watersheds, management assistance to coastal wetlands owners, preventative flood control and sediment damage measures, and an estuaries and groundwater pollution protection plan for the state. In addition, the office is responsible for providing direct cooperation with the United States Department of Agriculture Soil Conservation Service.

**Auxiliary Appropriation Funds**

Included within the General Appropriation Fund are the auxiliary appropriation funds. The auxiliary appropriation funds provide goods or services to the public or to other state agencies for a fee as authorized by the Louisiana Legislature through the General Appropriation Act. The measurement focus is not on income determination but on the reduction of state General Fund subsidization. The auxiliary appropriation funds are as follows:

1. The Farm Youth Loan Program is administered by the State Market Commission to provide loans and loan guarantee programs to individuals, ages 10 to 20, who are members of any 4-H, Future Farmers of America, or other farm youth organization that is functioning within the state school system. The program provides for direct loans or for loan guarantees of up to 75% of any loan made by a bank, financial institution, or federal department to any person eligible for direct loan. The parent is required to co-sign the application, making the parent equally responsible. The maximum amount of a direct loan or a loan guarantee is \$3,000, and the repayment period must not exceed five years.
2. The Loan Program of the Market Commission administers loans and loan guarantee programs for constructing, purchasing, or improving any agricultural plant that processes or stores Louisiana

**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

farm products. The Agriculture Loan Program Market Commission Fund accounts for such loans or loan guarantees.

3. The Indian Creek Reservoir and Recreation Program accounts for the activities of the Indian Creek Reservoir and Recreation Area. Monies derived from fees and services are restricted for recreation related expenditures.
4. The Nurseries Program accounts for the activities relating to the harvesting, processing, storage, and sale of tree seeds and seedlings. The program is committed to producing high quality genetically improved loblolly, slash, and other various species of pine trees.
5. The Agricultural Commodities Commission Self-Insurance Program is used to provide a means to self-insure the Agricultural Commodities Commission and the department for any loss that may be incurred relating to the operations of the commission. The commission is responsible for grain grading and inspections, grain warehousing, and grain dealers and cotton buyers licensing. The commission has acknowledged exposure in the area of warehousing and has established this fund as a means to cover its exposure.

**NON-APPROPRIATED FUNDS**

**Licensing and Regulatory Boards Trust Funds**

The department collects pesticide funds, fertilizer funds, and feed commission funds that are used to guarantee revenue bonds. The funds are transferred to the Louisiana Agricultural Finance Authority as needed to pay bonded debt and construction expenditures. Excess amounts are remitted to the state treasury for deposit to statutorily dedicated funds and then drawn by the department as appropriated.

**Soil and Water Conservation Districts**  
**Clearing Agency Fund**

The Soil and Water Conservation Districts Clearing Fund is used by the department to account for the net payroll and related payroll deductions for the individual soil and water conservation districts.



**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

**Other Agency Funds**

The department collects and distributes certain fees and assessments for various boards and organizations. These collections are not available to the department and are not shown on Statement B but are detailed on Schedule 2.

**Major State Revenues and  
Income Not Available**

The department collects major state revenues that are remitted to the state treasury for deposit to statutorily dedicated funds. In addition, the department collects funds specifically identified by the Division of Administration, State Budget Office as income not available that are remitted to the state treasury. These amounts are not available to the department for expenditure and, therefore, are not included on Statement B but are detailed on Schedule 3.

The non-appropriated funds, major state revenues and income not available, and the agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**D. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of those resources by the department. This differs from accounting principles generally accepted in the United States of America in which the measurement focus would be to measure the flow of current resources.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Division of Administration, Office of Statewide Reporting and Accounting Policy. These legal requirements differ from accounting principles generally accepted in the United States of America as follows:

1. Revenues are recognized to the extent that they have been appropriated and not necessarily when measurable and available.
2. Expenditures are recognized to the extent that appropriation authority has been extended to the department and not necessarily when the fund liability has been incurred.

Under the foregoing legal provisions, the department uses the following practices in recognizing revenues and expenditures:

**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

**Revenues**

State General Fund appropriations are recognized in the amounts appropriated, to the extent withdrawn from the state treasury. Fees and self-generated revenues, interagency receipts, auxiliary funds, and non-appropriated revenues are recognized in the amounts earned to the extent that they will be collected within 45 days of the close of the fiscal year. Federal funds are recognized as revenue in the period in which they become susceptible to accrual or when the related expenditure is incurred.

**Expenditures**

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recognized as expenditures when paid.

**Other Financing Sources (Uses)**

Other financing sources are recognized under the modified accrual basis of accounting, to the extent that they are both measurable and available. Other financing uses are recognized under the modified accrual basis of accounting when the related fund liability is incurred.

**E. BUDGET PRACTICES**

The appropriations made for the general operations of the department are annual lapsing appropriations and are recorded in the General Appropriation Fund. The auxiliary funds are authorized and controlled through the General Appropriation Act.

1. The budget process for general appropriations and auxiliary appropriations is an annual appropriation valid for one year. Revenues and expenditures for budget purposes are recognized on the same basis of accounting as described in note 1-D, except that transfers in and out for statutorily dedicated funds and funds carried forward from the prior year are recognized as revenues on Statement C, while federal receivables attributable to the payroll accrual at fiscal year-end are not recognized as revenues on Statement C. Salaries and related benefits are recognized when paid on Statement C. The loan payments/receipts of the auxiliary appropriations (Farm Youth Loan Program and other programs in the State Market Commission) are non-revenue and non-expenditure transactions that are not included on Statement B but are included in Statement C. Transfers to the Louisiana Agricultural Finance Authority for the Formosan Termite Program and Boll Weevil Eradication Program are recognized as expenditures on Statement C. The revenues



**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
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and expenditures shown on Statement B are reconciled with the respective amounts shown on Statement C as follows:

Statement B revenues	\$48,424,056
Add:	
Prior-year federal funds carryover	71,780
Prior-year self-generated funds carryover	460,847
Transfers in - statutorily dedicated funds	45,843,145
Principal payments received on loans	286,700
Federal payroll receivable (net)	<u>14,678</u>
<i>Statement C revenues</i>	<u><u>\$95,101,206</u></u>
Statement B expenditures	\$85,998,186
Add:	
Loans paid out	14,175
Payroll payable (net)	(20,358)
Transfer out to the Louisiana Agricultural Finance Authority:	
Payment of debt service for Boll Weevil Eradication Fund loan	8,000,000
Formosan Termite Program expenditures	<u>787,190</u>
Statement C expenditures	<u><u>\$94,779,193</u></u>

2. The department is prohibited by statute from over-expending the program levels established in the General Appropriation Act.
3. Budget revisions are granted by the Joint Legislative Committee on the Budget. Interim emergency appropriations may be granted by the Interim Emergency Board. The budget information included in the financial statements includes the original appropriation plus subsequent amendments as shown on Schedule 4.
4. The auxiliary appropriation funds are allowed to retain year-end balances to finance future expenditures as provided by Act 11, Section 15 of 2000. The non-appropriated funds are not subject to budgetary control.

**F. CASH**

Cash includes cash on hand, demand deposits, and cash in state treasury. Under state law, the Louisiana Department of Agriculture and Forestry may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the union, or the laws of the United States.

**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
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**G. INVENTORIES**

Inventories of materials and supplies are valued at cost, which approximates market, and are recorded as expenditures at the time individual inventory items are purchased. The department uses a perpetual inventory system and values its inventory using the first-in, first-out (FIFO) valuation method.

Inventories of tree seed are valued at the lower of cost or market and are recorded as expenditures at the time seeds are purchased. Only one type of tree seed is purchased, Virginia Pine. All other tree seeds are harvested by department employees from state owned forests. The Columbia Nursery in Columbia, Louisiana, has refrigerated services where all the seeds are stored. A three- to five-year supply of seeds is kept on hand at all times to avoid running out of seeds during the years when there are no seeds gathered. The department conducts an inventory count of the seeds annually. Inventory levels are adjusted and reported to management in the spring when seeds are removed for planting and in the fall when the seeds are harvested and stored.

Reported inventories are equally offset by fund balance reserves that indicate they do not constitute available spendable resources even though they are components of net current assets.

**H. FIXED ASSETS**

The Louisiana Department of Agriculture and Forestry maintains records only on its movable properties and does not account for land, buildings, and improvements used by the department. Movable property is valued at historical cost at the time of acquisition. The movable property is not reflected within the accompanying special purpose financial statements.

**I. LONG-TERM OBLIGATIONS**

The department is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the department arising from lease commitments, judgments, compensated absences, or from any other source are not recognized in the accompanying special purpose financial statements.

**J. ENCUMBRANCES**

Encumbrances represent commitments relating to unperformed contracts for goods or services. The department employs encumbrance accounting during the year to assure compliance with the annual appropriation act. Encumbrances are not included in the accompanying financial statements because R.S. 39:82 and the annual appropriation act

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do not allow the department to charge encumbrances at year-end against its current-year appropriation, the basis upon which the accompanying financial statements have been prepared. The department has no encumbrances at June 30, 2001.

**K. COMPENSATED ABSENCES**

*Employees accrue and accumulate annual and sick leave at various rates, depending on their years of service, without limitation on the balance that can be accumulated. Upon separation of employment, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay but are not compensated for unused sick leave. Unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits. The liability for unused annual and sick leave is not recorded in the accompanying financial statements.*

Certain employees of the department are eligible to earn compensatory time, as defined by the Department of State Civil Service and the Fair Labor Standards Act. These employees can earn and accumulate one hour or one and one-half hours for each hour of overtime worked, depending on their position and rate of pay. Generally, the employees are allowed to carry up to 360 hours of accrued compensatory leave from one calendar year to another; however, under federal regulations, certain employees are compensated for unused compensatory leave six months after the end of the quarter in which the leave was earned. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

**L. TOTAL COLUMN ON STATEMENTS**

*The total columns on the statements are captioned Memorandum Only (overview) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations. Neither are such data comparable to a consolidation.*

**2. CASH**

At June 30, 2001, the department has cash (book balances) totaling \$3,239,089.

Under control of the department:

Petty cash on hand	\$9,400
Demand deposits	828
Interest-bearing demand deposits	960,463
Cash on deposit with the state treasury	<u>2,268,398</u>
Total	<u><u>\$3,239,089</u></u>



**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
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Notes to the Financial Statements (Continued)

These deposits are stated at cost, which approximates market. Under state law, these deposits (or resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The department has deposits (collected bank balances) of \$1,197,685 at June 30, 2001. These deposits are secured from risk by \$152,788 of federal deposit insurance (GASB Risk Category 1) and \$1,044,897 of pledged securities held by the department's agent in the department's name (GASB Risk Category 1).

Cash balances held and controlled by the state treasurer are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States of America are included within the state's general purpose financial statements. The following is a summary of cash in the state treasury:

Means of finance	\$2,232,970
Operating account	16,375
Louisiana Rice Research Board Fund account	<u>19,053</u>
Total	<u><u>\$2,268,398</u></u>

**3. RECEIVABLES**

The following is a summary of fees and self-generated receivables by fund at June 30, 2001:

General Appropriation Fund	\$729,121
Non-Appropriated Funds:	
Licensing and Regulatory Boards Trust Funds:	
Fertilizer Fund	427,668
Feed Commission Fund	105,839
Pesticide Fund	11,100
Miscellaneous collections	13,368
Major State Revenues and Income Not Available	513,842
Other Agency Funds - Federal Grain Inspection Service	<u>291</u>
Total	<u><u>\$1,801,229</u></u>

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**4. DUE FROM/TO OTHERS**

The following is a summary of amounts due from/to others at June 30, 2001:

	<u>General Appropriation Fund</u>	
Due from others:		
State General Fund	\$111,529	
Federal government	878,869	
Statutorily dedicated funds:		
Boll Weevil Eradication Fund	1,893,770	
Feed Commission Fund	111,391	
Forest Protection Fund	7,172	
Formosan Termite Initiative Fund	14,223	
Louisiana Agricultural Finance Authority Fund	12,179	
Pesticide Fund	230,000	
Petroleum and Petroleum Products Fund	46,771	
Other agencies - interagency transfers	34,462	
	<u>\$3,340,366</u>	
Total		
	<u>General Appropriation Fund</u>	<u>Non-Appropriated - Licensing and Regulatory Boards Trust Funds</u>
Due to others:		
Louisiana Agricultural Finance Authority	\$286,490	\$300,000
Statutorily dedicated fund - Forestry Productivity Fund	1,099,130	
Department of Agriculture and Forestry (through State Treasury - Pesticide Fund)		230,000
	<u>\$1,385,620</u>	<u>\$530,000</u>
Total		



**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
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Notes to the Financial Statements (Continued)

**5. LOANS RECEIVABLE**

The department is responsible for certain loan programs that are established by state law. All loan balances on Statement A are reported at gross, since the department has made no provision for reporting uncollectible amounts. Loans are written off when the department determines them to be uncollectible. A summary of loan activity for the year ended June 30, 2001, follows:

	Farm Youth Loan Program	Loan Program of the Market Commission	Total
Balances at June 30, 2000	\$181,807	\$3,273,850	\$3,455,657
Re-establish loan previously written off		8,125	8,125
Principal collections	(53,390)	(233,310)	(286,700)
Amounts disbursed for loans	14,175		14,175
Balances at June 30, 2001	<u>\$142,592</u>	<u>\$3,048,665</u>	<u>\$3,191,257</u>

**6. INVENTORY OF MATERIALS AND SUPPLIES**

The Department of Agriculture and Forestry maintains four categories of inventories. The following is a summary of inventory balances at June 30, 2001:

	General Appropriation Fund
Inventory of materials and supplies:	
Fuel	\$882
Office supplies	34,178
Postage meter	15,973
Tree seed	825,233
Boll Weevil Eradication Program chemicals and trapping supplies	<u>2,141,001</u>
Total	<u>\$3,017,267</u>

**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
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Notes to the Financial Statements (Continued)

**7. FIXED ASSETS**

A summary of changes in movable property follows:

<u>Balance</u> <u>July 1, 2000</u>	<u>Adjustments</u>	<u>Balance</u> <u>July 1, 2000,</u> <u>restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2001</u>
<u>\$35,358,445</u>	<u>(2,704,145)</u>	<u>\$32,654,300</u>	<u>1,981,108</u>	<u>(1,026,317)</u>	<u>\$33,609,091</u>

The department follows Louisiana Property Assistance Agency (LPAA) policy for capitalizing and reporting equipment. The LPAA changed the dollar threshold for capitalizing equipment from \$250 to \$1,000 in September 2000. Therefore, the adjustment column reflects the impact of the change in capitalization policy.

**8. PENSION PLANS**

Substantially all employees of the department are members of the Louisiana State Employees Retirement System, a cost-sharing, multiple-employer defined benefit pension plan. Certain other employees of the department are members of the Louisiana Teachers Retirement System, a cost-sharing, multiple-employer defined benefit pension plan. Required disclosures for the plans for fiscal year 2001 are included in the Louisiana Comprehensive Annual Financial Report prepared by the Louisiana Division of Administration, Post Office Box 94095, Baton Rouge, Louisiana 70804-9095.

**9. POSTRETIREMENT HEALTH CARE  
AND LIFE INSURANCE BENEFITS**

The department provides certain continuing health care and life insurance benefits for its retired employees and their beneficiaries. Substantially all of the department's employees become eligible for these benefits if they reach normal retirement age while working for the department. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid jointly by the employee and the department. The department's costs of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 2001, the cost of retiree benefits for the 640 retirees totaled \$2,294,249.

**10. LOAN GUARANTEES**

As provided by R.S. 3:446.1-446.7, the Louisiana State Market Commission is authorized to provide loan guarantees to facilitate the processing, storing, and marketing of agricultural products in Louisiana. At June 30, 2001, the Louisiana State Market Commission has the following loan guarantees:

**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
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Notes to the Financial Statements (Continued)

	Loan Amount	Guaranteed Amount	Bank	Outstanding Balance June 30, 2001	
				Principal	Interest
Louisiana Pacific Corporation	\$8,690,000	\$8,690,000	The Bank of New York	\$8,450,000	
Tannery Acadiana Reptiles and Alligators	250,000	225,000	MidSouth National Bank	94,428	\$20,248
Total	<u>\$8,940,000</u>	<u>\$8,915,000</u>		<u>\$8,544,428</u>	<u>\$20,248</u>

These loan guarantees are not included in the department's financial statements.

Defaulted Loans

On May 27, 1998, the department was notified that the loan made to the Tannery Acadiana Reptiles and Alligators was in default. Midsouth National Bank is currently trying to collect the collateral, which consists of the Tannery's inventory of 159 alligator skins with a market value of approximately \$18,504. After Midsouth Bank sells the inventory, the department will be responsible for paying the remainder of the loan (approximately \$96,172).

**11. JUDGMENTS, CLAIMS, AND  
SIMILAR CONTINGENCIES**

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by General Fund appropriation. The department is involved in 11 lawsuits at June 30, 2001, handled by contract attorneys. The department's attorneys do not expect the suits to result in a liability to the department in excess of insurance coverage. Liabilities for claims and litigation are not reflected in the accompanying special purpose financial statements.

**12. COMPENSATED ABSENCES**

The liability for unused annual leave payable at June 30, 2001, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be \$3,765,706. The leave payable is not recorded in the accompanying special purpose financial statements.

The liability for accrued compensatory leave at June 30, 2001, computed in accordance with GASB Codification Section C60.105, is estimated to be \$246,606. Accumulated compensatory leave is not recorded in the accompanying special purpose financial statements.

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Notes to the Financial Statements (Continued)

**13. PAYABLES**

The following is a summary of payables at June 30, 2001:

	<u>Accounts Payable</u>	<u>Accrued Payroll Payable</u>	<u>Total</u>
General Appropriation Fund	\$3,867,096	\$893,526	\$4,760,622
Licensing and Regulatory			
Boards Trust Funds	<u>14,148</u>	<u></u>	<u>14,148</u>
Total	<u>\$3,881,244</u>	<u>\$893,526</u>	<u>\$4,774,770</u>

**14. LEASE OBLIGATIONS**

The department has several noncancelable operating leases for rental of land, equipment, and office space. The annual operating lease payments for the next five fiscal years are presented as follows:

<u>Fiscal Year</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Land</u>	<u>Total</u>
2001-2002	\$1,052,253	\$75,287	\$20,180	\$1,147,720
2002-2003	797,760	20,848	13,560	832,168
2003-2004	797,760		3,350	801,110
2004-2005			50	50
2005-2006			50	50
Thereafter			1,050	1,050
Total	<u>\$2,647,773</u>	<u>\$96,135</u>	<u>\$38,240</u>	<u>\$2,782,148</u>

All lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period. Operating lease expenditures for fiscal year 2000-2001 amounted to \$1,853,040.

The department has a lease agreement with the Louisiana Agricultural Finance Authority (LAFA). LAFA was organized to provide affordable interest rates for investment in agricultural products, commodities, and services by providing capital and credit at interest rates within the financial means of persons and businesses engaged in agriculture and agricultural exports. LAFA is a component unit of the State of Louisiana and is audited separately from the department.



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On December 1, 1998, LAFA and the department entered into a lease agreement to construct, furnish, and equip buildings in Hammond, Jonesville, Monroe, Oak Grove, Shreveport-Minden, Winnsboro, and Woodworth, Louisiana. LAFA sold \$4,000,000 of Revenue Bonds, Series 1998, on December 1, 1998, at an interest rate of 4.51% and a final maturity in 2004. These bonds are secured by the pledge of the pesticide registration fees, the Feed Commission Fund revenues, the Fertilizer Fund revenues, and by future lease rental payments from the State of Louisiana as lessee of the aforementioned properties.

The following is a schedule of future minimum payments remaining under the lease agreement with LAFA:

<u>Fiscal Year</u>	
2001-2002	\$936,133
2002-2003	939,150
2003-2004	<u>935,365</u>
Net minimum lease payments	2,810,648
Less amounts representing interest	<u>(235,648)</u>
Present value of net minimum lease payments	<u><u>\$2,575,000</u></u>

The annual requirements to maturity for the lease agreement are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2001-2002	\$820,000	\$116,133
2002-2003	860,000	79,150
2003-2004	<u>895,000</u>	<u>40,365</u>
Total	<u><u>\$2,575,000</u></u>	<u><u>\$235,648</u></u>

**15. INSTALLMENT PURCHASES**

In fiscal year 1999, the department entered into various installment purchase agreements with the Division of Administration under the Louisiana Equipment Acquisition Fund Program for the purchase of equipment. The following is a summary of installment transactions of the department for the year ended June 30, 2001:



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Notes to the Financial Statements (Continued)

Balance at June 30, 2000	\$467,783
Installment payments	<u>(380,459)</u>
Balance at June 30, 2001	<u><u>\$87,324</u></u>

The following is a summary of future minimum installment payments as of June 30, 2001:

<u>Fiscal Year</u>	
2001-2002	\$87,920
Net minimum installment payments	<u>87,920</u>
Less - amount representing interest	<u>(596)</u>
Present value of net minimum installment payments	<u><u>\$87,324</u></u>

The department entered into three master installment purchase agreements with GE Capital Public Finance, Inc., for the purchase of equipment. The following is a summary of installment transactions of the department for the year ended June 30, 2001:

Balance at June 30, 2000	\$1,943,384
Installment payments	<u>(689,406)</u>
Balance at June 30, 2001	<u><u>\$1,253,978</u></u>

The following is a summary of future minimum installment payments as of June 30, 2001:

<u>Fiscal Year</u>	
2001-2002	\$501,460
2002-2003	501,460
2003-2004	<u>327,503</u>
Net minimum installment payments	<u>1,330,423</u>
Less - amount representing interest	<u>(76,445)</u>
Present value of net minimum installment payments	<u><u>\$1,253,978</u></u>

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Notes to the Financial Statements (Continued)

**16. ADVANCES DUE TO STATE TREASURY**

The department has received advances from the state treasury for imprest fund operations and working capital totaling \$48,092 and \$800,000, respectively. The imprest fund is authorized by the commissioner of administration in accordance with Title 39 of the Louisiana Revised Statutes and is periodically replenished from appropriated funds. The advances, as reflected in the accompanying statements, represent a liability to the department and must be repaid if not authorized annually.

**17. RESERVED FOR CONTINUING OPERATIONS**

As shown on Statement A, at June 30, 2001, the department has reserves for continuing operations totaling \$3,541,286, which may be retained for future expenditures as follows:

<u>Fund</u>	<u>Louisiana Law or Revised Statute</u>	<u>Restricted Balance</u>
Farm Youth Loan Program	Act 11 of 2000	\$448,994
Loan Program of the Market Commission	Act 11 of 2000	2,572,417
Indian Creek Reservoir and Recreation Program	Act 11 of 2000	7,365
Nurseries Program	Act 11 of 2000	512,510
Total		<u>\$3,541,286</u>

These reserves relate to programs in which the legislature has authorized the department to retain the fund balances to fund future operations of the programs.

**18. RESERVES FOR DEBT SERVICE**

The department has reserves for debt service at June 30, 2001, in the Feed Commission Fund (R.S. 3:1907), the Fertilizer Fund (R.S. 3:1317), and the Pesticide Fund (R.S. 3:3210) for \$200,279, \$622,011, and \$12,547, respectively, totaling \$834,837, as shown on Statement A. In accordance with the Louisiana Constitution of 1974, Article 7, Section 9(A)(6), all money received by a state agency shall be deposited immediately upon receipt in the state treasury, except that pledged in connection with the issuance of revenue bonds, other than any surplus. The Feed Commission revenues, the Fertilizer Fund revenues, and the Pesticide Fund registration fees and revenues are assigned to the LAFA 1998 Bond Issue to construct, furnish, and equip buildings in various Louisiana cities.

**19. FUND DEFICIT**

The General Appropriation Fund has a deficit of \$1,051,184 for the year ended June 30, 2001. The deficit is the result of the recognition of accrued salaries and related benefits and the accrual of amounts due to LAFA that were incorrectly retained by the department. This deficit will be resolved using fiscal year 2002 funds.

**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
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Notes to the Financial Statements (Continued)

**20. ADJUSTMENTS TO FUND BALANCE  
AT BEGINNING OF YEAR**

Adjustments to the beginning fund balance of the General Appropriation Fund, as shown on Statement B, are detailed as follows:

Re-establish a Market Commission loan previously written off	\$8,125
Expenditure adjustment	<u>(76,772)</u>
Total	<u><u>(\$68,647)</u></u>

**21. OTHER FINANCING SOURCES (USES)**

As shown on Statement B, the department had other financing sources (uses). These amounts represent transfers in and out as follows:

Transfers in:

Appropriated - State Treasury:

Agricultural Commodity Commission Self-Insurance Fund	\$200,000
Boll Weevil Eradication Fund	28,407,755
Feed Commission Fund	111,391
Forest Protection Fund	791,280
Forestry Productivity Fund	3,400,870
Formosan Termite Initiative Fund	848,120
Louisiana Agricultural Finance Authority Fund	12,179
Pesticide Fund	2,730,000
Petroleum and Petroleum Products Fund	800,000
Structural Pest Control Commission Fund	<u>541,550</u>

Total other financing sources	<u><u>\$37,843,145</u></u>
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Transfers out:

Appropriated - State Treasury:

Louisiana Agricultural Finance Authority - Formosan Termite Program	\$787,190
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Non-Appropriated:

Louisiana Agricultural Finance Authority - building debt	785,000
State Treasury for Major State Revenues - Pesticide Fund	<u>2,730,000</u>

Total other financing uses	<u><u>\$4,302,190</u></u>
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**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
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Notes to the Financial Statements (Continued)

**22. NON-MONETARY FEDERAL PROGRAMS**

The accompanying financial statements do not include food commodities distributed by the department or surplus commodities on hand at June 30, 2001, under the Emergency Food Assistance Program (Food Commodities) and Food Distribution Program, Catalog of Federal Domestic Assistance Nos. 10.569 and 10.550, respectively. During the year ended June 30, 2001, the department recorded food distributions totaling \$24,976,671 for these programs. The value of surplus commodities on hand in several public warehouses and one department operated warehouse is \$784,707.

The accompanying financial statements also do not include chemicals received for the Boll Weevil Eradication Program from the federal government under the Plant and Animal Disease, Pest Control, and Animal Care Program, Catalog of Federal Domestic Assistance No. 10.025. During the year ended June 30, 2001, the department recorded chemicals received totaling \$1,110,196. As of June 30, 2001, the department has used all the chemicals received.

**23. ANCILLARY APPROPRIATIONS**

*Included in the General Appropriation Fund in the accompanying financial statements are ancillary appropriations made to the department in accordance with Act 11 of 2000. Accounting records are maintained by the department to identify activity in the auxiliary funds. At June 30, 2001, the accounts of the auxiliary funds reflect the balances shown on Schedule 6.*

**24. LEASE OF CATFISH PROCESSING PLANT**

The Louisiana Department of Agriculture and Forestry, through the State Market Commission, became a loan guarantor, as allowed by R.S. 3:446.3(F)(6), for Louisiana Catfish, Incorporated, on April 22, 1987. Louisiana Catfish, Incorporated, a catfish processing plant, was placed under a receiver by a state judge on September 14, 1990. The receiver placed the company in federal bankruptcy on September 17, 1990.

To protect itself as a loan guarantor, the State Market Commission purchased the catfish plant on December 18, 1990, for \$1,650,000 by an act of sale with an assumption of mortgage owed to Concordia Bank and Trust of \$1,350,916. On February 4, 1991, the State Market Commission entered into a lease-purchase agreement with Cargill, Incorporated, for 10 years. On December 15, 1993, Cargill, Incorporated, canceled its lease of the catfish plant. On this same date, Southern Farm Fish Processors, Incorporated, an Arkansas corporation, entered into a lease on the catfish plant that resulted in no break in the plant's operations. On September 10, 1996, Southern Farm Fish Processors, Incorporated, canceled its lease of the catfish plant.

On February 10, 1997, the State Market Commission and Wisner Minnow Hatchery, Incorporated, entered into a seven-year lease agreement with an option to purchase the catfish plant. The owners of Wisner Minnow Hatchery, Incorporated, paid the State Market Commission \$353,560 and assumed the balance of the mortgage with Concordia Bank and



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Trust. The owners of Wisner Minnow Hatchery, Incorporated, personally endorsed the assumed mortgage, and the State Market Commission is guarantor for the mortgage balance. Monthly rental payments on the assumed mortgage are \$8,882, paid directly to Concordia Bank and Trust. The remaining debt to the commission of \$1,828,575 was written off on June 30, 1997. The balance of the mortgage at June 30, 2001, is \$251,069.

**25. BOLL WEEVIL ERADICATION COMMISSION PROGRAM**

R.S. 3:1601-1617 creates and authorizes the Boll Weevil Eradication Commission to suppress or eradicate the boll weevil and to cooperate with state and federal agencies in the administration of cost-sharing programs for the suppression or eradication of the boll weevil. All assessments, fees, penalties, and other funds received by the commission shall fund any and all other costs related to the eradication of boll weevils.

Act 19 of the 1998 Regular Session appropriated the first installment of the state's participation in a five-year Boll Weevil Eradication Commission Program, subject to the Louisiana farmers' approval of the program. The farmers are required to contribute 50% of the costs of the program. Through a referendum in September 1998, the Louisiana farmers voted for and approved the program. A levy of \$10-\$35 per acre of cotton will be used as the farmers' 50% share. This levy will be in place each year for the five years of the program and will be payable at the time the farmers make their Certification of Cotton Acreage at the federal Farm Service Agency.

LAFA is responsible for incurring any debt necessary to fund the state's share of the program. The state's 50% share of the program will be \$50,000,000, funded with an \$8,000,000 annual appropriation to the department to repay debt incurred by LAFA.

In August 1998, the Joint Legislative Committee on the Budget approved a plan submitted by the commissioner of agriculture and forestry for boll weevil eradication. To implement the plan, the department entered into a cooperative endeavor agreement with the Office of the Governor, the Division of Administration, LAFA, and the Louisiana Boll Weevil Eradication Commission.

**26. DEFERRED COMPENSATION PLAN**

Certain employees of the Department of Agriculture and Forestry participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Concluded)

**27. SUBSEQUENT EVENTS**

Liberty Rice Mill, Inc.

On July 10, 2001, the Louisiana Department of Agriculture and Forestry, LAFA, the Louisiana State Market Commission (SMC), and the Louisiana Agricultural Commodities Commission (LACC) met to discuss the financial difficulties of Liberty Rice Mill, Inc., Kaplan, Louisiana. This mill, because of a lack of funds, was facing imminent closure at the beginning of the rice harvest season. The financial impact would have been devastating to the rice farmers, the economy of the area, and the city of Kaplan.

To mitigate the impact, a cooperative endeavor has been approved among the Louisiana Department of Agriculture and Forestry, LAFA, SMC and LACC. The LACC has legislative authority to seize and operate a processing facility such as Liberty Rice Mill, Inc. LAFA has the authority to borrow and make loans in this type of situation. The SMC, which has been involved in financing this rice mill, also has legislative authority to foster processing agricultural products.

Under the cooperative endeavor, Liberty Rice Mill, Inc., was placed in receivership, with a *temporary order on July 11, 2001, which was made permanent after a hearing on July 24, 2001*, and is being operated by the Louisiana Department of Agriculture and Forestry and LACC personnel. LAFA provided interim financing for operations until they could obtain approval from the State Bond Commission to issue bonds. On August 16, 2001, the State Bond Commission approved LAFA to issue \$1,000,000 in bonds for continuous operating funds. This facility, in recent years, has provided milling, drying and storage of rice for approximately 400 local farmers. This bond issue will allow for the harvest of the 2001 crop and additional time to find a permanent operator, either through a sale or lease of the facility.

Winnsboro Elevator Company, Inc.

Winnsboro Elevator Company began operations in 1957. In September 2001, the LACC granted an annual license to the Winnsboro Elevator Company, Inc., with the provision that the company be able to demonstrate to the satisfaction of the commission that the Winnsboro Elevator company, Inc., has a suitable financial worth and sufficient funds to operate on a continuing basis as a warehouse and grain dealer and otherwise fulfill its obligations to producers or, failing to demonstrate that ability, agree to being placed into receivership of the commission and the commissioner of the Louisiana Department of Agriculture and Forestry in accordance with provisions of state law.

Subsequent to licensing, the Winnsboro Elevator Company, Inc., was unable to satisfy to the LACC's satisfaction that the requirements specified in granting the 2001 grain dealer and warehouse license. The company was placed in receivership under a temporary court order on September 12, 2001, which was made permanent after a hearing on September 27, 2001. Employees of the Department of Agriculture and Forestry seized the facility and have supervised the operations of the facility pursuant to the directions of the LACC and the Commissioner of Agriculture.

**DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
SUPPLEMENTAL INFORMATION SCHEDULES  
For the Year Ended June 30, 2001**

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - NON-APPROPRIATED  
SOIL AND WATER CONSERVATION DISTRICTS CLEARING FUND**

Schedule 1 presents the changes in assets and liabilities resulting from the activities of the Non-Appropriated - Soil and Water Conservation Districts Clearing Fund, which is under the control of the department.

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - OTHER AGENCY FUNDS**

Schedule 2 presents the changes in assets and liabilities resulting from the activities of other agency funds that are under the control of the department.

**SCHEDULE OF NON-APPROPRIATED REVENUES -  
MAJOR STATE REVENUES AND INCOME NOT AVAILABLE**

Schedule 3 reflects major state revenues and income not available collected by the department during the year that were not available to the department for expenditure.

**SCHEDULE OF ADJUSTMENTS TO ORIGINAL  
APPROVED BUDGETS - APPROPRIATED FUNDS**

Adjustments to the original approved budgets, as shown on Schedule 4, are presented to describe the amendments to the amounts originally appropriated by the Louisiana Legislature by Act 11 of 2000.

**SCHEDULE OF PER DIEM PAID COMMISSION MEMBERS**

The per diem paid commission members is presented on Schedule 5, as required by House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

**SCHEDULE OF AUXILIARY ACCOUNT BALANCES -  
ANCILLARY APPROPRIATION FUNDS**

Schedule 6 presents the account balances of the various auxiliary funds at June 30, 2001.

DEPARTMENT OF AGRICULTURE AND FORESTRY  
 STATE OF LOUISIANA  
 NON-APPROPRIATED - SOIL AND WATER  
 CONSERVATION DISTRICTS CLEARING FUND

Schedule of Changes in Assets and Liabilities  
 For the Years Ended June 30, 2001

	BALANCE JULY 1, 2000	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2001
<b>ASSETS</b>				
Cash	<u>\$12,244</u>	<u>\$1,666,346</u>	<u>(\$1,678,262)</u>	<u>\$328</u>
<b>LIABILITIES</b>				
Amounts held in custody for others	<u>\$12,244</u>	<u>\$1,666,346</u>	<u>(\$1,678,262)</u>	<u>\$328</u>



DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
NON-APPROPRIATED - OTHER AGENCY FUNDS

Schedule of Changes in Assets and Liabilities  
For the Year Ended June 30, 2001

	BALANCE July 1, 2000	ADDITIONS	DELETIONS	BALANCE June 30, 2001
<u>Crawfish Promotion and Research Board</u>				
<b>ASSETS</b>				
Cash	\$100	\$36,413	(\$36,413)	\$100
<b>LIABILITIES</b>				
Amounts held in custody for others	\$100	\$36,413	(\$36,413)	\$100
<u>Soybean and Grain Research and Promotion Board</u>				
<b>ASSETS</b>				
Cash	\$100	\$739,122	(\$739,122)	\$100
<b>LIABILITIES</b>				
Amounts held in custody for others	\$100	\$739,122	(\$739,122)	\$100
<u>Rice Promotion Board</u>				
<b>ASSETS</b>				
Cash	\$100	\$716,059	(\$716,059)	\$100
<b>LIABILITIES</b>				
Amounts held in custody for others	\$100	\$716,059	(\$716,059)	\$100
<u>Rice Research Board</u>				
<b>ASSETS</b>				
Cash	\$100	\$1,193,433	(\$1,174,380)	\$19,153
<b>LIABILITIES</b>				
Amounts held in custody for others	\$100	\$1,193,433	(\$1,174,380)	\$19,153
<u>Catfish Promotion and Research Board</u>				
<b>ASSETS</b>				
Cash	\$100	\$57,149	(\$57,149)	\$100
<b>LIABILITIES</b>				
Amounts held in custody for others	\$100	\$57,149	(\$57,149)	\$100

(Continued)

DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
NON-APPROPRIATED - OTHER AGENCY FUNDS  
Schedule of Changes in Assets and Liabilities, 2001

	BALANCE July 1, 2000	ADDITIONS	DELETIONS	BALANCE June 30, 2001
<u>Federal Grain Inspection Service</u>				
<b>ASSETS</b>				
Cash	\$2,068	\$4,720	(\$4,829)	\$1,959
Receivables	62	291	(62)	291
Total Assets	<u>\$2,130</u>	<u>\$5,011</u>	<u>(\$4,891)</u>	<u>\$2,250</u>
<b>LIABILITIES</b>				
Accounts payable	\$69		(\$69)	
Amounts held in custody for others	2,061	\$4,949	(4,760)	\$2,250
Total Liabilities	<u>\$2,130</u>	<u>\$4,949</u>	<u>(\$4,829)</u>	<u>\$2,250</u>
<u>Total</u>				
<b>ASSETS</b>				
Cash	\$2,568	\$2,746,896	(\$2,727,952)	\$21,512
Receivables	62	291	(62)	291
Total Assets	<u>\$2,630</u>	<u>\$2,747,187</u>	<u>(\$2,728,014)</u>	<u>\$21,803</u>
<b>LIABILITIES</b>				
Accounts payable	\$69		(\$69)	
Amounts held in custody for others	2,561	\$2,747,125	(2,727,883)	\$21,803
Total Liabilities	<u>\$2,630</u>	<u>\$2,747,125</u>	<u>(\$2,727,952)</u>	<u>\$21,803</u>

(Concluded)

**DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
MAJOR STATE REVENUES AND  
INCOME NOT AVAILABLE**

**Schedule of Non-Appropriated Revenues  
For the Year Ended June 30, 2001**

<u>NON-APPROPRIATED REVENUE FUND SOURCE</u>	<u>CASH RECEIPTS THROUGH JUNE 30, 2001</u>	<u>ACCOUNTS RECEIVABLE JUNE 30, 2001</u>	<u>TOTAL REVENUES</u>
Income not available	\$14,372	\$38	\$14,410
Major state revenues:			
Structural Pest Control Commission Fund:			
Licenses, permits, and fees	587,533	91,603	679,136
Miscellaneous	6,855	15	6,870
Louisiana Alligator Market Development Fund - interest income	28,589		28,589
Feed Commission Fund:			
Interest income	370		370
Miscellaneous		105,809	105,809
Fertilizer Fund - interest income	194		194
Louisiana Agricultural Finance Authority Fund - interest income	686		686
Pesticide Fund - miscellaneous	2,500,000	230,000	2,730,000
Forest Protection Fund - other taxes	787,591	3,688	791,279
Boll Weevil Eradication Fund:			
Interest income	99,579		99,579
Licenses, permits, and fees	9,576,198	83,189	9,659,387
Miscellaneous	11,183,774		11,183,774
Prior year revenue adjustment	1,161		1,161
Agricultural Commodity Commission Self-Insurance Program - miscellaneous	51,560	(500)	51,060
Formosan Termite Initiative Fund - miscellaneous	7,957		7,957
Subtotal - major state revenues	24,832,047	513,804	25,345,851
 Total non-appropriated revenues	 \$24,846,419	 \$513,842	 \$25,360,261

**DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
APPROPRIATED FUNDS**

**Schedule of Adjustments to Original  
Approved Budgets  
For the Year Ended June 30, 2001**

		<u>AUXILIARY</u>	
	<u>GENERAL APPROPRIATION</u>	<u>FARM YOUTH LOAN PROGRAM</u>	<u>LOAN PROGRAM OF THE MARKET COMMISSION</u>
Original approved budget	\$99,544,441	\$620,000	\$1,101,000
Increases for:			
Collection of fees from schools for commodity storage	2,100,000		
To allow for continuation of the Atchafalaya Basin project with the Department of Natural Resources	225,190		
To correct budgeting of Formosan Termite Fund monies from General Fund to statutorily dedicated funds	3,435,851		
To allow for receipt of federal funds for a new Farmers Market grant	205,000		
Decreases for - budget cut taken from Formosan Termite budget	(3,774,892)		
Total Budget Amounts	<u>\$101,735,590</u>	<u>\$620,000</u>	<u>\$1,101,000</u>



APPROPRIATIONS			
INDIAN CREEK RESERVOIR AND RECREATION AREA	NURSERIES PROGRAM	AGRICULTURAL COMMODITIES COMMISSION SELF- INSURANCE PROGRAM	TOTAL
\$313,664	\$2,067,905	\$350,000	\$103,997,010
			2,100,000
			225,190
			3,435,851
			205,000
			(3,774,892)
<u>\$313,664</u>	<u>\$2,067,905</u>	<u>\$350,000</u>	<u>\$106,188,159</u>

**DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA**

**Schedule of Per Diem Paid Commission Members  
For the Year Ended June 30, 2001**

	<u>NUMBER</u>	<u>AMOUNT</u>
<b>LOUISIANA ADVISORY COMMISSION ON PESTICIDES</b>		
Grady E. Coburn (Ph.D.)	2	\$80
Wayne Ducote	2	80
Douglas W. Duty	3	120
William A. Guthrie	2	80
Zoren O'Brien	2	80
Mike Robichaux	2	80
Gary N. Ross (Ph.D.)	3	120
Victoria G. Taylor	2	80
		<hr/>
Total		<u>\$720</u>
<b>LOUISIANA AGRICULTURAL COMMODITIES COMMISSION</b>		
Floyd Carter, Sr.	4	\$160
James Hoppe	4	160
Joe Jackson	2	80
Jerry Johnston	3	120
Rodney Kendrick, Jr.	4	160
Blaine Koch	3	120
Walter Morales	2	80
Leslie Rodrigue	4	160
Joel Vincent	4	160
		<hr/>
Total		<u>\$1,200</u>
<b>DAIRY STABILIZATION BOARD</b>		
Holley Burford	1	\$30
Dennis Cogan	1	30
George McKenzie	1	30
Hillar Moore	1	30
Vernon Toups	1	30
		<hr/>
Total		<u>\$150</u>
<b>HORTICULTURE COMMISSION</b>		
A. Allen Addison	4	\$160
		<hr/>

(Continued)

**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
**Schedule of Per Diem Paid Commission Members, 2001**

	<u>NUMBER</u>	<u>AMOUNT</u>
<b>LOUISIANA AGRICULTURAL FINANCE AUTHORITY</b>		
Jerry Hunter	5	\$200
Willie Smith	4	<u>160</u>
Total		<u><u>\$360</u></u>
<b>STATE MARKET COMMISSION</b>		
Fred Bass	1	\$40
Filmore Bordelon	1	40
Elvadás Fields	1	40
Bartol Taliancich	1	40
Dan Volentine	1	<u>40</u>
Total		<u><u>\$200</u></u>
<b>STATE SOIL AND WATER CONSERVATION COMMITTEE</b>		
A. Lee Allee	8	\$280
Pedro Angelle	9	315
Randell Fletcher	2	70
George Guillory	1	35
Harry R. Henderson	2	70
Jerry Holmes	7	245
Richard Netterville	7	245
Terry J. Smith	7	245
William T. Spurlock	11	385
Thomas Vitrano (Ph.D.)	2	70
John Woodward	2	<u>70</u>
Total		<u><u>\$2,030</u></u>
<b>STRUCTURAL PEST CONTROL COMMISSION</b>		
Paul K. Adams	1	<u>\$40</u>
<b>LOUISIANA COMMISSION OF WEIGHTS AND MEASURES</b>		
Mark S. DeFelice	2	\$80
Joseph A. Moreaux	2	80
Morris Weinstein	2	<u>80</u>
Total		<u><u>\$240</u></u>

(Concluded)

DEPARTMENT OF AGRICULTURE AND FORESTRY  
 STATE OF LOUISIANA  
 ANCILLARY APPROPRIATION FUNDS

Schedule of Auxiliary Account Balances  
 For the Year Ended June 30, 2001

	FARM YOUTH LOAN PROGRAM	LOAN PROGRAM OF THE MARKET COMMISSION	INDIAN CREEK RESERVOIR AND RECREATION AREA	NURSERIES PROGRAM	AGRICULTURAL COMMODITIES COMMISSION SELF-INSURANCE PROGRAM
Cash and cash equivalents	\$306,402	\$323,752	\$32,663	\$673,838	
Receivables			26,195	87,496	
Loans receivable	142,592	3,048,665			
Inventory of materials and supplies				825,233	
Accounts payable			51,493	248,824	
Advances due to state treasury		800,000			
Reserved for continuing operations	448,994	2,572,417	7,365	512,510	
Reserved for inventory of materials and supplies				825,233	
Revenues	10,280	153,777	300,586	1,906,972	\$200,000
Expenditures	320	136,428	313,875	2,295,135	200,000



**OTHER REPORT REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws, regulations, contracts, and grants and on internal control as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE  
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December 11, 2001

Report on Compliance and on Internal Control Over Financial Reporting  
Based Solely on an Audit of the Financial Statements Performed  
in Accordance With Government Auditing Standards

**HONORABLE BOB ODOM**  
**COMMISSIONER OF AGRICULTURE**  
**DEPARTMENT OF AGRICULTURE AND FORESTRY**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the special purpose financial statements of the Louisiana Department of Agriculture and Forestry, as of and for the year ended June 30, 2001, and have issued our report thereon dated December 11, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Louisiana Department of Agriculture and Forestry's special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Unallowable Expenditure of  
Statutorily Dedicated Funds**

The Department of Agriculture and Forestry has improperly transferred Feed Fund, Fertilizer Fund, and Pesticide Fund resources to the Louisiana Agricultural Finance Authority (LAFA). LAFA used the funds to finance debt service for revenue bonds that were issued to fund agricultural construction projects throughout Louisiana. Revised Statutes (R.S.) 3:1317(3), 3:1907C, and 3:3210C(4) state that these statutorily dedicated funds could be pledged for revenue bonds to renovate and/or construct a building on the Baton Rouge campus of the Louisiana State University and Agricultural and Mechanical College and a building and connected facilities for the purpose of housing administration and management of the Department of Agriculture. However, there is no authority for the statutorily dedicated funds to be used to finance the debt service for the revenue bonds that were issued to fund agricultural construction projects throughout the state.

**EXHIBIT A**

## LEGISLATIVE AUDITOR

**HONORABLE BOB ODOM  
COMMISSIONER OF AGRICULTURE  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA**

Compliance and Internal Control Report

December 11, 2001

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On December 1, 1998, LAFA sold \$4,000,000 of revenue bonds to construct, furnish, and equip office buildings at seven sites throughout the state. The bonds are secured by a pledge of pesticide registration fees, Feed Fund revenues, Fertilizer Fund revenues, and by future lease rental payments from the State of Louisiana as lessee of the properties. The department transferred Feed, Fertilizer, and Pesticide funds to LAFA to finance bond interest and principal payments totaling \$936,536 for the fiscal year ended June 30, 2001, and \$820,400 for the fiscal year ended June 30, 2000.

The pledge of these statutorily dedicated monies for debt service payments makes these funds unavailable for expenditure for allowable, program-specific purposes. Furthermore, the fees may be eligible for reduction if their use were limited to funding expenditures of the programs as required by the revised statutes.

The department should authorize and require LAFA to reimburse the Feed, Fertilizer, and Pesticide funds a total of \$1,756,936 for unallowable use of the statutorily dedicated funds for bond principal and interest payments. Furthermore, the department should ensure that all future payments from these funds are for legally allowable purposes. Management did not concur with the finding and recommendation (see Appendix A, pages 1-3).

**Additional Comment:** Management responded that this finding was originally discussed as part of the LAFA audit and that a similar response had been provided to this office for this finding. Management also states that the Department of Agriculture and Forestry "is not now nor ever has been the subject of this audit." Management is correct regarding the origination of the finding; however, the finding was not included in the LAFA audit report but is included in this audit because (1) the Feed, Fertilizer, and Pesticide funds are collected by the department, not LAFA, and (2) the Department of Agriculture and Forestry inappropriately allowed LAFA to pledge those funds for debt service payments. The department continues to transfer these statutorily dedicated funds to LAFA for that purpose.

Management also states that the Legislative Auditor has moved into the "field of lexicology." This may be true since this office complies with Louisiana Revised Statutes, Title 1, Chapter 1, *Interpretation of Revised Statutes*, and specifically with R.S. 1:3, which states, in part, "words and phrases shall be read with their context and shall be construed according to the common and approved usage of the language." In this case, the statutes state that the revenue bonds will be used "for the purpose of acquiring, constructing, renovating, and equipping an office building and connected related facilities . . ." (emphasis added). The legislature's use of **both** words "connected" and "related" are significant to the interpretation of the statute. If the legislature had used only the word "related," then use of the statutorily dedicated monies may have been



## LEGISLATIVE AUDITOR

HONORABLE BOB ODOM  
COMMISSIONER OF AGRICULTURE  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA  
Compliance and Internal Control Report  
December 11, 2001  
Page 3

allowable for the projects. However, use of the word "connected" indicates that there should be a *physical* connection of the project(s) to the building identified in the statutes. Obviously, construction projects located throughout the state are not physically connected to the building, making the use of the statutorily dedicated funds inappropriate.

### **Noncompliance With Performance Progress Report Regulations**

For the second consecutive year, the Department of Agriculture and Forestry has not established adequate internal control over its performance progress reports to ensure the reliability of the performance data. R.S. 39:87.3 requires that performance progress reports provide information on the agency's actual progress toward achievement of performance standards.

The review of the third quarter performance progress report for the department disclosed that five of 12 key performance indicators tested (42%) inaccurately reported the actual performance. Of these five, one was due to a keypunch error and the other four (all from the Office of Forestry) did not have supporting documentation for the amounts reported.

In addition to the above noted review, a follow-up review was conducted of the 11 key indicators inaccurately reported by the department in the prior fiscal year (FY 1999-2000). This review disclosed that five of the 11 (45%) were still reported incorrectly in the current fiscal year (FY 2000-2001). One of these indicators is being reported as the opposite of what the indicator is supposed to report; three were due to untimely reporting by field personnel; and one is reported using information obtained over the telephone so there is no supporting documentation maintained for the amounts reported.

These conditions occurred because management did not place sufficient emphasis on the accumulation of and reporting of its performance data, including the maintenance of an adequate audit trail. Failure to comply with state laws and regulations concerning performance reporting could result in penalties being assessed against the department.

The department should establish an adequate review function to ensure that performance progress reports are accurate and reliable and comply with state laws and regulations. In addition, management should emphasize the importance of maintaining adequate supporting documentation for amounts reported in the quarterly progress reports to ensure an adequate audit trail. Management partially concurred with the finding and outlined a plan of corrective action (see Appendix A, page 4).

## EXHIBIT A



## LEGISLATIVE AUDITOR

HONORABLE BOB ODOM  
COMMISSIONER OF AGRICULTURE  
DEPARTMENT OF AGRICULTURE AND FORESTRY  
STATE OF LOUISIANA

Compliance and Internal Control Report

December 11, 2001

Page 4

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Department of Agriculture and Forestry's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted the following matter involving the internal control over financial reporting and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Louisiana Department of Agriculture and Forestry's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

#### Ineffective Internal Audit Function

For the tenth consecutive year, the Department of Agriculture and Forestry did not have an effective internal audit function to examine, evaluate, and report on its internal control and to evaluate its compliance with policies and procedures of the control system.

The department has an audit division as well as a section that monitors Food Distribution, a federal program. However, the audit division directs a majority of its audit efforts to various boards, commissions, and programs associated with the department, and most of its duties are regulatory in nature. The audit division does not perform an internal audit function, which would include a review of the department's accounting system and its policies and procedures. The audit division does not assess audit risk or the risk of fraud existing in the department's accounting system.

Considering the size of the department's assets totaling \$14,588,208 and revenues and transfers totaling \$90,857,302 for the year ended June 30, 2001, an effective internal audit function is needed to ensure that the department's assets are safeguarded and that the department's policies and procedures are adequate and uniformly applied.

The department should establish an effective internal audit function to provide management with an independent evaluation of internal control and transactions of the department. Management concurred in part with the audit finding and recommendation (see Appendix A, page 5).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of

## EXHIBIT A

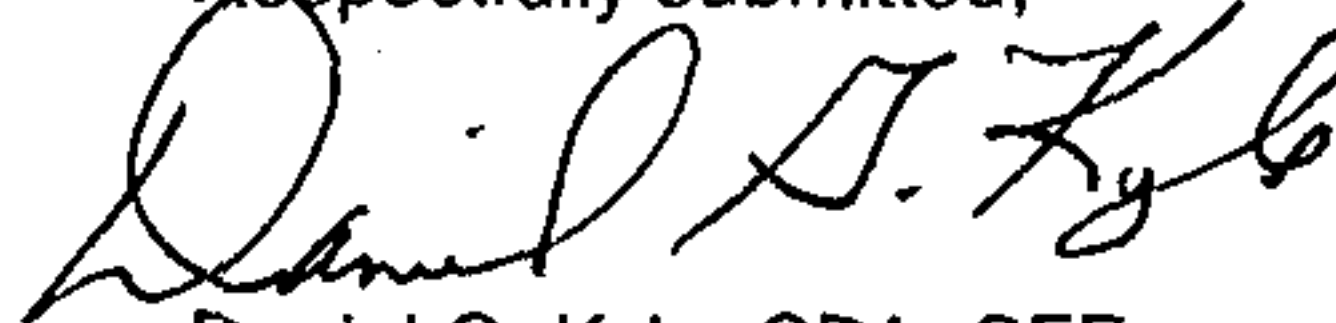
**LEGISLATIVE AUDITOR**

**HONORABLE BOB ODOM  
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STATE OF LOUISIANA**  
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performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described previously is not a material weakness.

This report is intended solely for the information and use of the Louisiana Department of Agriculture and Forestry and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle", is written over a horizontal line.

Daniel G. Kyle, CPA, CFE  
Legislative Auditor

BQD:STD:DSP:ss

[AGFOR01]

## Appendix A

### Management's Corrective Action Plans and Responses to the Findings and Recommendations



# LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY

BOB ODOM, COMMISSIONER

W.G. "BUD" COURSON, DEPUTY COMMISSIONER



November 20, 2001

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Daniel G. Kyle, PhD., CPA, CFE  
Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Re: Unallowable Expenditure of Statutory Dedicated Funds

Dear Dr. Kyle:

For the reasons stated below, the Louisiana Agricultural Finance Authority (LAFA) does not find the Legislative Auditor's theory sound and, therefore, does not concur with the finding referenced above or the recommendation included therein.

The Legislative Auditor expressed the theory that there is "no authority" for LAFA to use specified funds for "construction projects" of LAFA. In reaching that legal conclusion the Legislative Auditor cited no supporting legal authority. When LAFA provided specific and express legal authority for use of the statutory dedicated funds for construction, the Legislative Auditor issued an Additional Comment to which LAFA now responds.

The Legislative Auditor attempts to support his theory that there is "no authority" for LAFA to use specified funds for "construction projects" of LAFA, not with legal authority but with another theory of the Legislative Auditor, this time, in the field of lexicology. More particularly, the Legislative Auditor has given in support of his theory, another theory, i.e., that the word "connected" can only mean "a physical connection." That the word "connected" can only mean a physical connection is not supported in law, logic or the relevant usage of the word "connected," particularly when taken in the context of the relevant statute.

The word "connected," in one form or another, is used four times by the Legislature in the very paragraph of the law that specifically authorizes the use of the funds in question. An analysis of those words as used in context reveals that it cannot reasonably or rationally be theorized that the Legislature was using the word "connected" to only mean "physically connected" and not to also mean "functionally" or otherwise connected. To so assert is to call for the production of an absurd result which the law clearly does not permit in interpreting statutes and, under the circumstances present, there simply is no basis for such an assertion.



Moreover, each of the construction projects and the funding<sup>1</sup> of same referred to by the Legislative Auditor have all been approved by the State Bond Commission. The State Bond Commission is made up of the Governor, the Lieutenant Governor, the President of the Senate, the Speaker of the House of Representatives, the State Treasurer, the Secretary of State, the Attorney General, the Senate Finance Committee Chairman, the Senate Revenue and Fiscal Affairs Committee Chairman, the House Ways and Means Committee Chairman, the House Appropriations Committee Chairman, two other members of the Legislature and the Commissioner of Administration. Also, two of LAFA's recent construction projects came to LAFA directly from the Legislature through the Capital Outlay Bill. Further, the Legislature itself has been presented this theory by the Legislative Auditor on more than one occasion and the Legislature has notably taken no action to address this theory raised by the Legislative Auditor, further indicating that the theory is erroneous and that there is no need for the law to be modified. Under these circumstances it is difficult to understand how the Legislative Auditor can propose that the Legislature had a meaning that is clearly at odds with the words the Legislature used and at odds with various and long standing actions of the Legislature and its leadership.

As the audit has shown, LAFA expended funds for the construction projects. For each dollar expended the State received at the very least, equivalent value. Indeed, existing reports of experts in the field of construction have examined the costs of the construction projects at issue and have determined that they are being constructed for as much as fifty percent less than the going rate of construction. In addition, through these construction projects the State is not only receiving the value of the assets being constructed without additional tax dollars having to be appropriated but is also saving huge amounts of tax dollars by eliminating rental cost which the State was paying each year on rented buildings.

And finally, the Legislative Auditor's theory clearly constitutes an attack on the validity of the pledge of those funds used to secure the bond issue which provided the funding for the construction projects. The Constitution and the law explicitly spell out the procedure and the time within which any such attack must occur and the Legislative Auditor's attack on the validity of the pledge of the funds is neither based on the procedure required by law nor is his attack brought timely as required by the Constitution.

It must be noted that the Legislative Auditor Dan Kyle was previously provided the information by LAFA that this proposed finding was contrary to law and the constitution, and that the Legislative Auditor's only response was to issue the finding, not as to LAFA but instead, as to the Department of Agriculture and Forestry which is not now nor ever has been the subject

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<sup>1</sup>It is noteworthy that the Legislative Auditor has reviewed identical funding for previous construction projects of LAFA without any findings related to such funding and certainly without urging the theory that the auditor now urges.

Dr. Kyle  
November 20, 2001  
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of this audit. No sophomoric effort like this switch of names by the Legislative Auditor Dan Kyle can rectify serious constitutional and legal flaws as those present in the Legislative Auditor's finding.

In the final analysis, it is the Legislative Auditor's actions in this matter that are contrary to procedural requirements of law and constitutional mandates. And with regard to the use of the funds for construction which the Legislative Auditor would now improperly question, the use of the funds is specifically authorized, there are no irregularities in connection with the expenditures of the funds, the state is enjoying unprecedented savings and the constitutionally mandated objectives of promoting, protecting and advancing agriculture are thereby being achieved.

Very truly yours,

A handwritten signature in black ink, appearing to read "Skip Rhorer", written over a horizontal line.

Skip Rhorer  
Assistant Commissioner

SR:sw



# LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY

BOB ODOM, COMMISSIONER  
W.G. "BUD" COURSON, DEPUTY COMMISSIONER



October 31, 2001

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Dr. Daniel G. Kyle  
Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

re: Noncompliance with Performance Progress Report Regulations

The Department of Agriculture and Forestry concurs in part with this finding.

The Department has set a specific date by which information must be reported from the district offices. That date is the 15th of the month before the reports are due, which will allow time for adequate review and analysis. The Department does place emphasis on the accumulation of and reporting of its performance data; however, human fallibility will always be a part of this equation.

To further verify the accuracy of the performance data, we will require that supporting documentation be attached to each quarter's numbers when they are submitted to the Assistant Commissioner of Management and Finance. Additionally, each assistant commissioner will closely review and analyze the numbers and supporting documentation to ensure the accuracy and reliability of these reports.

Very truly yours,

Skip Rhorer  
Assistant Commissioner

SR:sw

cc: Commissioner Bob Odom  
Confidential Assistant Randall Johnson  
Fiscal Officer Linda Chaney





# LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY

BOB ODOM, COMMISSIONER

W.G. "BUD" COURSON, DEPUTY COMMISSIONER



October 9, 2001

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Dr. Daniel G. Kyle  
Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804

Dear Dr. Kyle:

re: Ineffective Internal Audit Function

The Louisiana Department of Agriculture and Forestry concurs in part with the above referenced finding, and is aware that this finding has been mentioned in previous audits. It should be noted here that the Department has responded each time that we have insufficient funds and personnel to create an internal audit section. This past fiscal year, the Department had to absorb an Executive Order reduction of \$1,887,446. Additionally, this Department is the only state agency that has had to implement a reduced work week for all employees on four different occasions due to budget shortfalls.

In lieu of an internal audit section, we have implemented what we believe are effective internal controls to safeguard the Department's assets and to ensure compliance with policies and procedures. It would seem that your own office confirms the strength of our approach, since there were no findings in your audit of the Louisiana Agricultural Finance Authority, and there have been no significant findings of control failure in your Department audits.

Even in consideration of the above, and although adequate funding for new positions does not appear to be forthcoming from the Legislature, the Department will attempt to find within its appropriated funding the means to support an internal audit position during Fiscal Year 2001-2002.

Very truly yours,

Skip Rhorer  
Assistant Commissioner

SR:sw

cc: Commissioner Bob Odom